HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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New Home Market

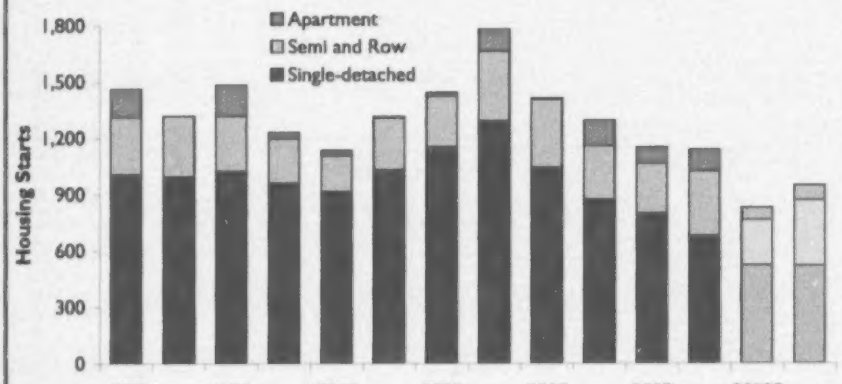
Housing Starts Set to Pick Up

A gradual recovery of the economy and improvement in labour market conditions will underlie a 14 per cent pick-up in housing starts forecast for the St. Catharines-Niagara CMA (hereinafter Niagara) in 2010. Housing starts will increase to 950 units from estimated 830 units in 2009 as empty-nester demand, low inventories and low mortgage rates boost new construction in 2010.

The household formation rate, a key determinant of housing demand, has slowed given the more challenging economic climate. Moving forward, it will continue to be slow because of demographic factors, most notably the aging population. The slowing household formation rate will limit

Figure 1

Housing Starts Pick Up in 2010



Source: CMHC

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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the potential for starts in the region in the medium term.

In 2010, builders will break ground on as many single-detached homes as in 2009. Growth next year is expected to be led by starts of townhouses. This will be due to demand from downsizing empty-nesters who will continue to be looking for bungalow townhouse condominiums. A typical profile of townhouses that are becoming increasingly popular with senior households is a one and a half storey two-bedroom home with about 1,500 sq. ft. These homes often have an open concept design, with a master bedroom, and a large kitchen and living room area on the main floor. However, some empty-nesters are finding it difficult to sell their current homes. The cohort of current move-up households (the baby-bust generation born between the mid 1960s to the late 1970s), which includes the prospective buyers of these homes, is relatively small. Also, their housing requirements are different from the needs of the current empty-nesters when they were move-up buyers 20 to 30 years ago. Consequently, some empty-nesters will be unable to sell at a price that allows them to buy the housing they prefer without additional financing and may opt to stay in their current home. Some choosing this option will also renovate. Retirees moving into the region, traditionally from the GTA, will buy many of the bungalow townhouse condos being built. Proceeds from the sale of their home will enable them to afford a new home in Niagara.

Despite lower new home demand in the late 2008 and early 2009, there was almost no build-up in inventories of unsold completed homes. Builders matched production to the lower demand, which was very different than the experience in the 1991 downturn. Entering 2010 with low inventory will mean that builders will respond to any increase in demand for new homes with increased production. As economy recovers, the currently well-supplied resale market will no longer offer a lot of choice or be sufficient to satiate housing demand. The new home market will feel a positive spill-over effect from the resale market. Also, relatively low mortgage rates expected to move up only slightly in 2010 which will create an environment that is supportive for rising housing demand next year.

Increasing costs of land and development charges will bump up the price of new homes especially in the northern municipalities of Niagara peninsula. The New Home Price Index (NHPI) for Niagara, which measures the prices at which builders sell new homes of equivalent quality, is projected to reverse and trend up modestly, after falling through most of 2009.

Resale Market

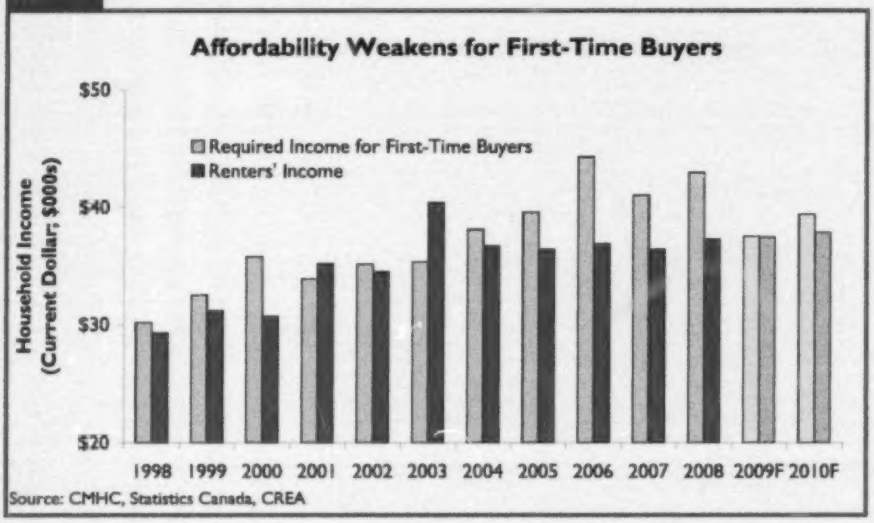
Resale Market to Cool Off

Resale market activity is projected to moderate in 2010. Less pent-up demand and rising prices will dampen sales. Sales of existing homes will edge down by just under three per cent to 5,350 transactions. After moderating in the first half of 2009, sales surged in the second half but are still estimated to trail 2008 on an annual basis. With projections of a quicker economic recovery, many upbeat buyers moved back to the resale market to take advantage of historically low mortgage rates, stalled prices and a larger selection of homes in the market.

Since approximately May, sales have been boosted by buyers who had postponed purchases in the fourth quarter of 2008 and the first quarter of 2009 because of economic uncertainty. Part of the current strength in the resale market is also due to some buyers who, in anticipation of mortgage rates moving up in 2010, prefer to close their purchases before that

Figure 2

Figure 3



happens. Because of the sales brought forward to 2009, the resale market next year is expected to ease off slightly to 5,350 sales.

In 2010, the affordability of a home purchase will moderately erode, as an increase in both mortgage rates and average price will outweigh a modest rise in average weekly earnings. This will also dampen somewhat demand for resale homes.

On the other hand, the migration of retirees from the more affluent Greater Toronto Area into the region will continue. Searching for a better lifestyle and enjoyable retirement destination, these senior households can afford buying a home of their choice in Niagara from the proceeds of the sale of their more expensive property located anywhere in Toronto and surrounding areas. This group will also include some pre-retirees who continue to work in the GTA but no longer need to commute on a daily basis. Expansion of GO bus service makes this a more viable option.

Even first-time buyers, traditionally a less influential segment of the market compared to downsizing buyers, will also affect the market. Favourable market environment and job security will prompt their entrance to the market. The latter factor is an important consideration for younger workers, as they were affected the most by recent economic downturn, in particular, those employed in tourism and business services.

With a stronger sentiment of economic upturn, sellers returned to the market too. Listings of homes in the market are expected to inch up in 2010. As a result, the sales-to-new-listings ratio, which measures the current conditions of the resale market, will move lower pointing to a loosening of the market.

However, the average price of existing homes on a year-over-year basis will continue to grow into 2010. Prices entered 2009 at a depressed level, but turned around together with the other resale market indicators in the second quarter and levelled off at a higher level than they were prior to the downturn. As a result, compared to a year earlier, the average resale price will be higher in 2010 compared to 2009.

Economic Factors

Better Outlook for Employment

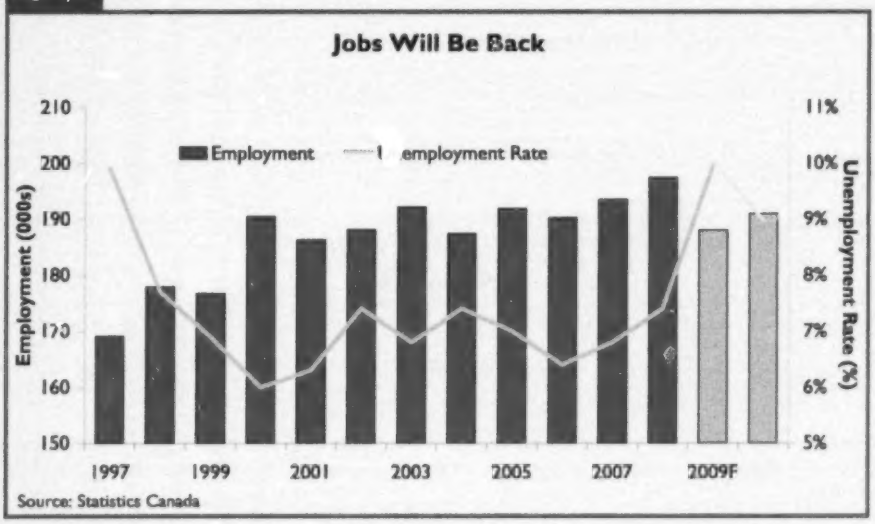
For 2010, employment is forecasted to increase by 1.6 per cent. A gradually strengthening economy will bring jobs back on the market. More knowledge-based businesses, such as biotechnology, innovative research projects, high-tech media industry will be leading the recovery. The future of the job market will be tied to small- and medium-sized enterprises.

Compared to other centres across the province, the local labour market experienced a setback in 2009. As a result of declining global demand for manufactured goods, many senior workers took early retirement and left the labour force altogether. The unemployment rate in 2009 surpassed ten per cent during the year, but returned to single digits later in the year. A shrinking labour force dampened the effect of lower employment on the unemployment rate.

Average weekly earnings will follow the other economic variables with a lag, increasing as businesses continue to cut costs to boost earnings before they start hiring again and raising salaries.

Demographic trends indicate that Niagara's population has been declining over the past few years. Not only the population's natural change component is negative (a negative difference between births

Figure 4



and deaths), but domestic migration recently turned negative too. More people move out from the region to other parts of the province and the country than move in from these areas. International migration remains the only positive factor for population growth, but its impact has been constrained in the past few years, as many international migrants find it difficult to settle in the region and land a job. Instead, after living a couple of months they prefer to move to larger centres, such as Toronto, Vancouver, or Montréal, where they are more likely to find their first job and where there is a larger supportive community of their compatriots. Still, net migration is forecast to turn positive in 2010 as a recovering economy will draw more international immigrants to the country and Niagara will receive its usual share of these migrants.

Given a relatively high median age of the region's population, the potential for expansion of the labour force is limited. New entrants will barely replace the large number of baby-boomers expected to retire in the coming years.

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Figure 5

Forecast Summary St. Catharines - Niagara CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	6,410	6,668	5,896	5,500	-6.7	5,350	-2.7
MLS® New Listings	11,661	11,710	12,428	12,000	-3.4	12,100	0.8
MLS® Average Price ($)	194,671	202,314	203,648	210,000	3.1	215,000	2.4
New Home Market							
Starts:							
Single-Detached	873	798	680	525	-22.8	520	-1.0
Multiples	421	351	458	305	-33.4	430	41.0
Semi-Detached	102	60	56	40	-28.6	50	25.0
Row/Townhouse	184	207	288	200	-30.6	300	50.0
Apartments	135	84	114	65	-43.0	80	23.1
Starts - Total	1,294	1,149	1,138	830	-27.1	950	14.5
Average Price ($):							
Single-Detached	323,359	342,933	375,998	379,000	0.8	385,000	1.6
New Housing Price Index (% chg.)	4.7	4.1	4.3	-1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	4.3	4.0	4.3	4.0	-0.3	4.0	0.0
Two-bedroom Average Rent (October) ($)	752	765	777	790	-	800	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	190,200	193,500	197,400	188,000	-	191,000	-
Employment Growth (%)	-0.9	1.7	2.0	-4.8	-	1.6	-
Unemployment rate (%)	6.4	6.8	7.4	10.0	2.6	9.0	-1.0
Net Migration [1]	88	-244	-136	-200	-64	50	250

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

(1) 2009 migration data is forecasted.

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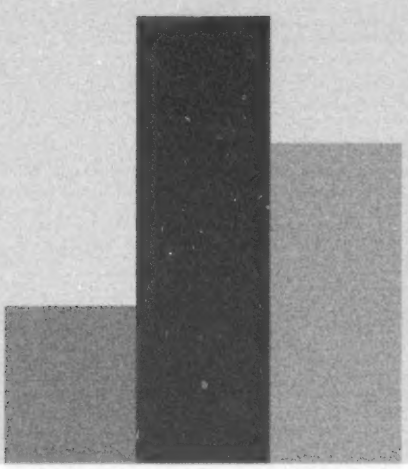

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